Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes

OCTOBER 2025

CPAB Audit Quality Insights Report
2025 INTERIM INSPECTIONS RESULTS

The Canadian Public Accountability Board (CPAB) contributes to public confidence in the integrity of financial reporting by overseeing audits of Canadian reporting issuers performed by CPAB registered accounting firms. This interim report, which is intended for audit firms, audit committees and the general public, highlights CPAB's initial observations regarding audit quality assessments of engagement files and the firms' systems of quality management from the 2025 regulatory assessment work as of September 30, 2025. The full results for all firms inspected in 2025 will be included in our annual report in March 2026. Firm-specific results will also be published starting in 2026, commencing with the results of the four largest firms.

CPAB continues to observe a strong correlation between firms with a robust system of quality management and lower levels of significant findings identified through inspections. The preliminary findings related to the use of technology in audits are of heightened importance as more sophisticated technology and AI-enabled tools are increasingly adopted. CPAB also identified findings related to the implementation of the new group audit standard that emphasizes the group auditor's responsibility for oversight of component auditors, the identification and response to fraud risks and evaluation of accounting policies. We continue to encounter situations where there has been a breach of expected ethical conduct by an audit firm. This may be either self reported by the firm, or identified during an inspection. The need for audit firms, and all of their employees, to act with the highest level of integrity and ethics is of paramount importance. CPAB will take action with respect to individual circumstances and in relation to firm culture as outlined in our strategic plan.

This report also provides forward-looking observations on audit implications from the current economic and geopolitical environment and artificial intelligence applications in the auditing sector, as well as insights on CPAB public disclosures. Overall considerations for audit committees are included as year-end audit preparations begin. CPAB welcomes the opportunity to discuss this report with audit committees and other capital market participants.

How CPAB chooses files and audit areas to review

CPAB's risk-based methodology for choosing audit files for inspection (and the specific focus areas for those files) is targeted towards higher-risk audit areas of more complex reporting issuers or areas where the audit firm may have less expertise. It is not designed to select a representative sample of a firm's audit work. Our inspections do not look at every aspect of every file, therefore, the absence of significant findings in our review of a particular audit file does not mean that all aspects of the audit were fully compliant with professional standards, nor should it mean that any significant findings identified would be the only findings had CPAB reviewed every aspect of the file. Results should not be extrapolated across a firm's entire audit portfolio but instead viewed as an indication of how firms address their most challenging audit situations.

Audit quality assessments

Engagement file inspections

As of September 30, 2025, CPAB has inspected 59 of the 62 files planned for inspection across Canada's four largest audit firms, and identified significant inspection findings[1] in nine of those files. This compares to eight files with significant inspection findings across 65 inspections in 2024. CPAB also inspected 10 files at other firms and identified four files with significant findings.

Firm system of quality management evaluations

The Canadian standard on quality management (CSQM 1) requires all firms to annually evaluate their system of quality management and conclude whether it provides the firm with reasonable assurance that the objectives of the system are being achieved. Our 2025 system of quality management evaluations for the four largest firms are currently underway and will focus on the firms' self-evaluation. We will publish our findings in our 2025 annual report in March 2026.

Firms will need to continue to evolve their system of quality management to adjust to changing circumstances. The development of firm policies, processes and guidance related to the use of technology, including AI-enabled tools, requires certification of all technology tools in accordance with

[1] A significant inspection finding is defined as a deficiency in the application of auditing or other relevant professional standards, as defined in Section 300 of CPAB's Rules, where the audit firm must perform additional audit work to support the audit opinion and/or is required to make significant changes to its audit approach. CPAB requires firms to carry out additional audit procedures to determine the need, if any, to restate the financial statements due to material error, or to substantiate that the firm obtained sufficient and appropriate audit evidence with respect to a material balance sheet item or transaction stream to support their audit opinion.

CSQM 1,[2] and provision of required training to practitioners using such tools. These are key to ensuring tools are fit for purpose and used as intended.

In September 2024, CPAB published The use of artificial intelligence in the audit — balancing innovation and risk to provide an overview of our observations on how AI could enhance audit quality and outlines how we expect audit firms and auditors to manage the risk relating to AI-enabled tools. The publication also discusses the importance of human oversight and reminds that AI-enabled tools are designed to enhance but not replace the professional judgement that is applied by auditors.

Remote work has been identified as one of the root causes of an increase in audit deficiencies by various firms. On-the-job coaching and in-person training will continue to be critical components in the development of auditors and the execution of quality audits.

Themes identified in inspection findings

The themes identified in our inspection findings have either occurred most frequently and/or are of heightened concern. The most common significant findings continue to relate to the audit of revenue and areas with significant estimates such as business acquisitions, impairment of assets and the valuation of financial instruments. The current macroeconomic environment has significantly increased the level of estimation uncertainty in these areas. To support audit practitioners and valuation experts preparing valuations for financial reporting purposes, CPAB collaborated with the Chartered Business Valuators Institute to publish Valuation experts in financial reporting in July 2025. This publication includes good practices observed in our inspections and provides illustrative scenarios for commonly encountered issues.

The themes identified in our preliminary 2025 inspection findings to date relate to:

- Technology used in audits
- Identification and response to fraud risks
- Audits of group financial statements
- Evaluation of accounting policies

Technology used in audits

CPAB observed an increase in the use of more sophisticated technology-assisted audit tools to evaluate large datasets and to identify transactions that represent higher risk or are outliers in a population. Technology-assisted audit tools that CPAB inspectors encountered typically analyze the company's recorded transactions for specific accounts using a pre-determined set of criteria or algorithms. One of the most common criteria is unusual account combinations such as a revenue transaction that does not have cash or accounts receivable as the corresponding account. There may also be criteria and algorithms that are designed to identify account transactions that do not meet the auditor's expectations.

[2] This requirement is irrespective of whether the tool is developed globally, locally or by a third party. For off-the-shelf tools, firms should consider whether a system and organization controls (SOC) 2 report over the information technology general controls is available.

The following examples of deficiencies were identified when the use of a technology-assisted audit tool provided the primary source of audit evidence:

- Audit procedures to test the completeness and accuracy of the amounts recorded were limited to the transactions that were identified as higher risk or outliers by the tool. In one instance, this resulted in approximately 98% of the revenue reported in the company's financial statements not being subject to further audit procedures.
- When testing revenue transactions, significant reliance was placed on cash receipts as evidence that the revenue recognition criteria had been met. As the relationship between cash receipt and the satisfaction of the performance obligations decreases (for example, when payment is received in advance of product shipment or when revenue is recognized over time), there is an increased need to consider what other audit procedures may be necessary to respond to the risk that revenue is materially misstated.

It is critical that auditors are trained to understand the capabilities and limitations of technology-assisted audit tools, including AI-enabled tools, and consider whether the tool is appropriate to be used based on the specific facts and circumstances of the audit engagement. Coaching and supervision of audit teams are essential when these tools are used to ensure sufficient exercise of professional skepticism and that tools are appropriate for the engagement. Our findings in this area emphasize the importance of the International Auditing and Assurance Standards Board's (IAASB) current initiative on technology and the impact on audit and assurance.

Identification and response to fraud risks

We continue to identify findings where fraud factors were present but not adequately evaluated, resulting in fraud risks not being identified by the auditor. For example, circumstances where whistleblower reports, complaints, or short seller reports are not considered as potential fraud risk factors, resulting in audit procedures not being tailored to address the risk of material misstatement due to fraud.

In addition, CPAB encountered situations where a company acquires a business or assets during the year and recognizes a significant impairment on the acquired assets by year end. Findings from inspections of engagement files with these circumstances are included in the Risk Alert: Acquisitions of a business or assets that were impaired by year end published October 2025.

In addition, the Canadian Securities Administrators (CSA) published a staff notice in July 2025 relating to regulatory concerns noted in transactions with certain asset or business acquisitions, that are primarily taking place in venture markets, with misleading disclosures that could constitute market manipulation. The guidance in the staff notice relates to reporting issuers that distribute a significant number of securities to acquire assets or businesses that appear to have little or no value or operating history, at what appears to be inflated prices.

The auditor's responsibilities relating to fraud have been strengthened by the revisions to Canadian Auditing Standard (CAS) 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, effective for audits of financial statements for periods beginning on or after December 15, 2026.

Audits of group financial statements

A revised CAS 600, Special Considerations – *Audits of Group Financial Statements (including the work of component auditors)* (CAS 600) is effective for 2024 calendar year end. Audits of group financial statements apply to consolidated financial statements of more than one entity or business unit and include a group auditor who oversees one or more component auditors. CPAB inspected a sample of group audit engagements to evaluate the implementation of select aspects of CAS 600. In October 2025, as part of our Strengthening Audit Quality series, we published Audits of group financial statements, providing our observations on the implementation of the revised group audit standard. We also highlighted our observations from our inspections of component auditor working papers in foreign jurisdictions.

Our most common findings are the result of insufficient audit procedures related to the:

- Understanding of the group and its environment.
- Determination of whether audit procedures performed are sufficient to address the risks of material misstatement.
- Identification and evaluation of group wide controls and assessment of information technology risks.
- Consideration of fraud risks and oversight by the group engagement partner.

Evaluation of accounting policies

CPAB continues to identify deficiencies related to the auditor's evaluation of the entity's accounting policies to be satisfied that they are appropriate and consistent with the relevant financial reporting standards. While the accounting matters identified have varied, CPAB observed commonalities in the circumstances that resulted in restatements of the previously audited financial statements, including:

- No evidence that the auditor obtained and evaluated management's accounting policies in complex areas.
- Limited challenge of accounting policies implemented historically.
- Limited consideration of contradictory information noted in other areas of the audit engagement or other publicly available information and potential for management bias.
- Insufficient communication and division of work between the audit team and technical accounting specialists involved in evaluating the treatment of complex accounting matters, resulting in incomplete audit work over the recorded balances.

How firms are required to respond to CPAB findings

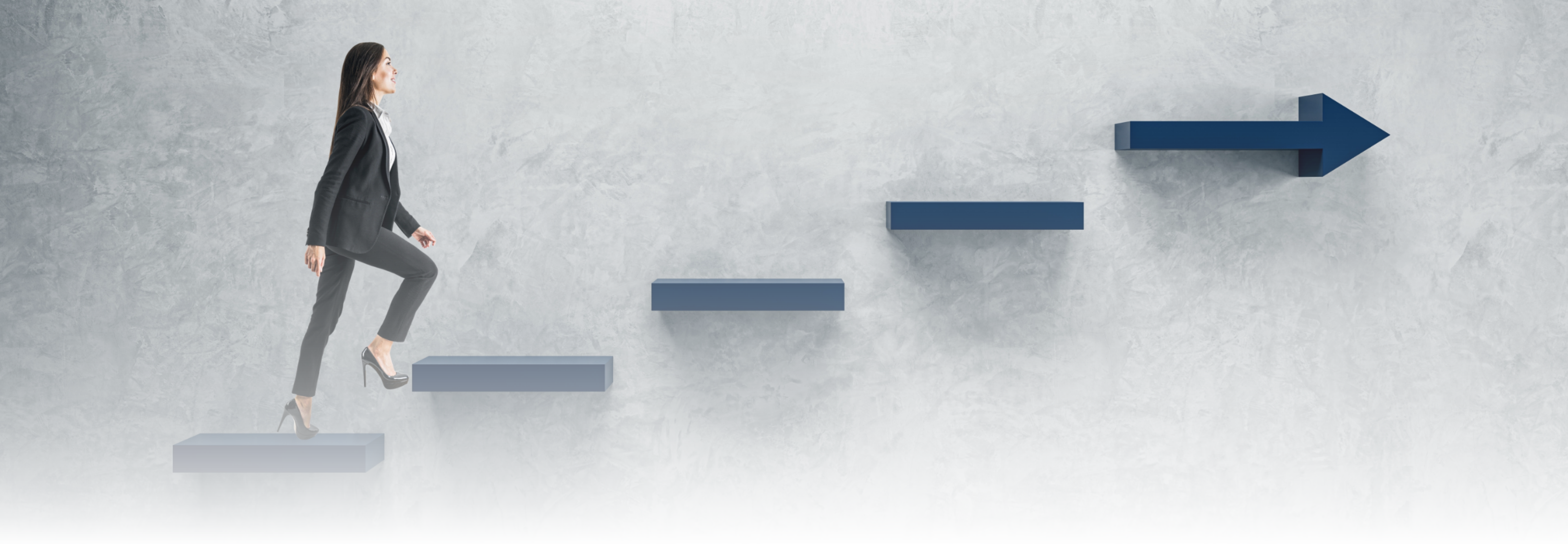
Most significant findings require the firm to carry out additional audit procedures to determine the need, if any, to restate the financial statements due to material error. The remaining findings require firms to add evidence to the audit file to show they had obtained sufficient and appropriate audit evidence with respect to a major balance sheet item or transaction stream. CPAB expects firms to remediate file deficiencies before the reporting issuer's next quarterly report. Where a restatement is required, the firm is expected to work with the reporting issuer to complete the restatement as soon as possible in order to provide updated information to investors. Under CPAB's mandatory Protocol, audit firms are required to share CPAB's annual reports, as well as CPAB inspection reports, which outline any specific findings and remedial action taken, with the relevant reporting issuer's audit committee. CPAB encourages audit committees to discuss this report and specific findings, if applicable, with their auditor.

CPAB Vision

CPAB is a leading audit regulator that reinforces public confidence in Canada's capital markets.

CPAB Mission

CPAB promotes audit quality through proactive regulatory oversight, facilitating dialogue with domestic and international stakeholders, and publishing practicable insights to inform capital market participants.



Looking forward

Current economic and geopolitical environment

Geoeconomic tensions around the world and economic uncertainty are all impacting the global economy and audit environment. These events not only impact Canadian companies, but also their audits. As an example, tariffs are having an uncertain effect on Canada's economic outlook, and scenario planning is top of mind for companies in all industries. Auditors will need to understand the impact of these uncertainties on estimates and judgements.

Artificial intelligence applications in the audit

As audit tools using artificial intelligence (AI) become more widely adopted, it is important for all stakeholders (audit committees, investors, regulators) to remain engaged on the paths being taken and choices that are made regarding the deployment and rollout of new technology. Considerations include building in the use of professional judgement and skepticism and avoiding overreliance on technology, setting appropriate guidelines for the use of technology, and protecting confidentiality of information used by the tools.

The next evolution in implementation of AI includes advanced analytics and the development of agentic AI systems that are capable of performing tasks autonomously. These developments introduce new complexities that must be carefully managed through strong governance frameworks, rigorous certification of the tools and robust safeguards to protect the integrity of the audit process.

As reporting issuers embed AI into financial reporting processes, auditors may also encounter additional challenges, such as addressing the reliability, completeness, and auditability of AI-generated information.

CPAB public disclosures

Starting in Q1 2026, CPAB will begin to publish individual firm public inspection reports. The publication of these firm reports, together with the other disclosure changes implemented over the past three years, will enhance the dialogue on audit quality among audit committees, audit firms, investors and other stakeholders. Updates regarding the publishing of these reports will be shared on CPAB's website and via the CPAB Express newsletter. We encourage interested stakeholders to subscribe.

CPAB has also prepared a webpage dedicated to answering frequently asked questions, to assist stakeholders in understanding more about these disclosure changes.

Considerations for audit committees

CPAB welcomes the opportunity to discuss this report with audit committees. Below are some areas for audit committee consideration.

Topic	What to ask the auditor
Use of technology and AI-enabled tools in audit procedures	• What automated tools and techniques did the auditor use in the audit and to what extent did they incorporate AI technologies? • How has the auditor tested the accuracy of the dataset that is used and analyzed by the tool? • How does the tool used come to its conclusions (for example, identify outliers or assign level of risk to transactions) and how has the auditor tested the tool's algorithms? • Describe how AI tools used in this audit have been tested and determined to be fit for purpose prior to their use. • How has the engagement team demonstrated that professional skepticism was exercised when using technology tools?
Response to fraud risks	• In circumstances where whistleblower reports, complaints, or short seller reports have occurred, has the auditor considered such matters as a potential fraud risk factor? How did the auditor respond to issues noted? • Where an impairment has been recorded shortly following recognition of an asset, how did the auditor evaluate the change in circumstance that led to the impairment and assess any potential fraud risk factors?
Group audit engagements	• For subsidiaries or business units not subject to audit procedures, how was the audit team satisfied that there was no risk of material misstatement (audit risk was reduced to an acceptable level)? • Where the auditor did not test group-wide controls to address aggregation risk, was it due to known or expected control deficiencies? If so, is management planning to address such deficiencies? • Did the auditor identify any components impacted by economic or geopolitical instability and if so, how has the audit approach been modified to address the risks?
Evaluation of accounting policies	• Considering other acceptable alternatives to the accounting policies selected by management, how has the auditor evaluated the accounting for new, complex or unusual material transactions? • How did the audit team evaluate for management bias in the selection of accounting policies and/or calculation of accounting estimates? • What are some examples of how the auditor challenged management's accounting policies?

Additional CPAB resources

Additional resources related to CPAB's regulatory oversight activities are available at www.cpab-ccrc.ca/insights.

About this report

This report provides insights from CPAB's interim audit quality assessments for 2025, related for the most part to the country's four largest audit firms. We will publish our annual audit quality insights report in March 2026.

About CPAB

The Canadian Public Accountability Board (CPAB) is Canada's independent, public company audit firm regulator. Charged with overseeing audits performed by registered public accounting firms, CPAB contributes to public confidence in the integrity of financial reporting and is committed to protecting Canada's investing public. CPAB promotes audit quality through proactive regulation, dialogue with domestic and international stakeholders, and practicable insights to inform capital market participants. CPAB has offices in Montreal, Toronto and Vancouver.

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